



TG WORLD ENERGY CORP.

2003 Annual Report

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TSX Venture Exchange Symbol: TGE

LETTER FROM THE CHAIRMAN OF THE BOARD

The year 2003 was a difficult one for your Company, and its 100% owned subsidiary TG World Petroleum Limited ("TG World"). It started well. With the continued high prices for crude oil and the need to replace global oil reserves there was a renewed interest in TG World's Tenere Block. Several companies had shown a strong interest in a farmout arrangement and negotiations had reached an advanced stage with several groups.

Since obtaining the Tenere acreage from the Republic of Niger ("Niger"), TG World and its predecessor companies had fulfilled all of its obligations to Niger with respect to the Tenere Block. By April 9, 2004 (arguably July 28, 2004) TG World had to undertake 1500 kilometers of seismic, but on September 30, 2003 Niger issued a decree, which, upon effectivity, would arguably result in termination of TG World's Permit for the Tenere Block. TG World's position is that this decree is not effective because it has not been published in Niger's Official Gazette. On November 7, 2003, and on January 9, 2004, Niger issued decrees, which, upon effectivity, would arguably result in Niger also granting rights to TG World's Tenere acreage (as well as additional acreage) to a subsidiary of the Chinese National Petroleum Company ("CNPC"). Niger has not yet issued any decree terminating TG World's Establishment Agreement for the Tenere Block, or given TG World notice of such termination as is required under the Establishment Agreement. These improper actions of Niger have severely damaged TG World and the Company.

Beginning in 2001, TG World carried on extensive farmout discussions with CNPC and supplied them with TG World's confidential technical and economic information under a two-year Confidentiality and Non-Competition Agreement (the "CA Agreement") dated November 1, 2001. Despite the CA Agreement and in contravention of international petroleum standards CNPC proceeded, in our view, wrongfully to attempt to acquire our Tenere Block.

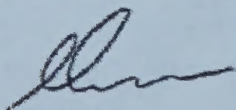
As described later in this report TG World has undertaken multiple legal actions against CNPC and Niger. As well, TG World continues its discussions with CNPC and Niger to resolve these serious matters. What the results will be is unknown at this time, but we are aggressively pursuing all options available to us.

It has been a difficult time for the board of directors, the management, staff and shareholders. Many have been supportive with additional financings. Management continues to pursue vigorously a satisfactory resolution to the conflict. We are hopeful that the rule of law will prevail and that TG World will be fairly compensated for its initiatives, investments and risks taken. My thanks to all for their support.

During the year, Allan Clowes, a longtime director, resigned from the Board. Allan has also been chairman of the Audit Committee and Secretary of the Company. We thank him for his counsel and many contributions.

The Company's Annual and Special Meeting will be held on June 16, 2004 at 10:00 a.m. at the Company's office at which time an update will be given. Hopefully you will attend.

Regards,



Edward W. Best
Chairman of the Board of Directors

INTRODUCTION

Overview

TG World Energy Corp. (the "Company") is a Canadian-based junior oil and gas exploration and development company whose only asset is TG World Petroleum Limited ("TG World"), a 100% owned Bahamian subsidiary. TG World's only asset is the Establishment Agreement with the Republic of Niger ("Niger") for the Tenere Block. The Company's common shares are listed on the TSX Venture Exchange and trade under the symbol TGE.

The Establishment Agreement was originally between Niger and TG World Energy Inc. ("TGWE"), a predecessor company to TG World Energy Corp., giving TGWE the right to explore for and produce hydrocarbons from the Tenere Block (described below). It was signed on March 6, 1997 and became effective by Decree on April 10, 1997 (arguably July 28, 1997). An amendment to the work program requirements set forth in the Establishment Agreement was agreed to by Niger on November 29, 1999. The Establishment Agreement, through the amalgamation of TGWE and Trego International Inc. on July 10, 2001, is now held by TG World.

The main effort of TG World in 2003 was devoted to evaluating and seeking a partner or partners for the exploration program on its Tenere Block. Niger issued a decree on September 30, 2003, which, upon effectivity, arguably would terminate TG World's Permit to the Tenere Block. On November 7, 2003, and on January 9, 2004, Niger issued decrees, which, upon effectivity, arguably would result in Niger also granting rights to TG World's Tenere Block to CNPC International Ltd. ("CNPCI"), an affiliate of the China National Petroleum Company ("CNPC"). TG World is disputing these actions, which are fully described in the Management Discussion and Analysis section under the headings Legal Proceedings and Outlook. Discussions on a possible settlement are being held with CNPC and the Niger government. Until the recent actions of Niger, farm-out negotiations were well advanced with several parties. Further discussions with these parties are pending the results of these legal actions.

The Company completed two private placements during 2003. The first private placement closed in two tranches raising a cumulative of \$400,000. The first tranche closed on March 31, 2003 and the second tranche closed on June 20, 2003. The financing involved the issuance of Units consisting of a \$10,000 unsecured convertible debenture bearing interest at the greater of Royal Bank of Canada prime rate plus 4% per annum or 12% per annum and 83,333 common share purchase warrants. Each two warrants entitles the warrant holder to purchase one common share, at an exercise price of \$0.12 per share, for a period of two years from the anniversary of the closing date. The term to maturity of the convertible debenture is the earlier of the two year anniversary from the closing date or conversion by the holder or redemption by the Company. The Company may call the debenture for redemption, upon giving the holder 15 days notice, when the weighted average trading price of the common shares of the Company for any 22 consecutive business days equals or exceeds \$0.37. The debenture holder is entitled to convert

all or part of the debenture (principal only) into common shares of the Company at any time up to two years from the anniversary of the closing date at no additional cost to the holder. The conversion rate for either redemption by the Company or retraction by the holder is 83,333 common shares for each \$10,000 investment amount.

The second private placement closed in December 2003 and raised a cumulative of \$600,000. The financing involved the issuance of Units consisting of a \$10,000 unsecured convertible debenture bearing interest at the greater of Royal Bank of Canada prime rate plus 4% per annum or 12% per annum and 100,000 common share purchase warrants. Each full warrant entitles the warrant holder to purchase one common share, at an exercise price of \$0.10 per share, up to September 30, 2005. The term to maturity of the convertible debenture is the earlier of September 30, 2005 or conversion by the holder or redemption by the Company. The Company may call the debenture for redemption, upon giving the holder 15 days notice, when the weighted average trading price of the common shares of the Company for any 22 consecutive business days equals or exceeds \$0.37. The debenture holder is entitled to convert all or part of the debenture (principal only) into common shares of the Company at any time up to September 30, 2005 at no additional cost to the holder. The conversion rate for either redemption by the Company or retraction by the holder is 200,000 common shares for each \$10,000 investment amount.

The funds raised through both private placements will be expended for working capital purposes and to resolve the issues noted in the Management Discussion and Analysis - Legal Proceedings section.

The accompanying Consolidated Financial Statements and the notes thereto include the results of operations and cash flow for the Company for the years ended December 31, 2003 and December 31, 2002, respectively. Additional financial information is included in the Management Discussion and Analysis.

The Tenere Block, Niger

TG World holds a 100% interest in an oil and gas concession in Niger (the "Tenere Block"), which measures 8,600,000 acres. The Tenere Block is located in eastern Niger and lies astride one of the Central African Cretaceous-Tertiary rift basins that have proven to be oil bearing in Sudan, Chad, Niger and elsewhere in Africa. The Tenere Block contains the northern half of the Tenere-Termit Rift. The southern half of this rift lies in the adjacent Agadem Block, in which Esso (Exxon) and Petronas, the Malaysian National Oil Company, have so far drilled five oil and gas discovery wells.

The Tenere-Termit Rift is a NW-SE trending rift basin in filled with a thick section of Cretaceous and Tertiary Sediments. Sandstone reservoirs and rich basin-wide source rocks are anticipated to be present in the Upper Cretaceous and Tertiary. Oil quality is anticipated to be in the 30-45° API and paraffinic in part.

Approximately 6,800 kilometers of seismic were acquired over the Tenere Block. About one-half of the seismic covers the northern half of the Tenere-Termit Rift, and

TG World has concentrated its efforts in this area. Only one well, the deep Fachi well drilled in 1974, has been drilled in the northern half of the Tenere-Termit Rift. This well was abandoned.

Seismic mapping in this part of the rift has revealed the presence of thirty-five, mostly fault-dependent, closed structures or prospects. Each prospect has been assessed volumetrically, and a chance of success or risked analysis of each prospect has also been undertaken.

The Tenere Termit Rift is one of several in Central Africa. Estimated initial oil reserves in the African Rifts range from approximately 1 billion barrels of oil in each of Sudan and Chad to 6.7 billion barrels of oil in the Gulf of Suez and 33 billion barrels in Libya's Sirte Basin. TG World has estimated total potential risked recoverable oil for the thirty-five defined prospects. Each of the ten largest prospects has the potential for very large reserves.

There are no facilities for the transportation of oil or gas on or adjacent to the Tenere Block. The Tenere Block lies within the southern Sahara. There are at least four possible pipeline routes to get oil to market: north to the underutilized Algerian or Libyan pipelines to the Mediterranean; south through Agadem to the Chad oil pipeline to the Atlantic; or southwest to a Nigerian refinery in need of supply. All require the construction of a pipeline 900 to 1200 kilometers in length.

Economic analysis by TG World, Sonatrach (the Algerian National Oil Company), and an independent consulting company have shown that between 500 and 600 million barrels of oil reserves will be required before a commitment to build a pipeline of this length can be made. The oil discovered on the adjacent Agadem block could significantly lower the 500 to 600 million barrel threshold requirement for the Tenere Block alone.

MANAGEMENT DISCUSSION AND ANALYSIS

Description of Business

TG World's principal business initiative to date has been preliminary exploration on the Tenere Block and seeking partners in a farm-out agreement. TG World was in advanced discussions with several companies on a farm-out until the recent actions by Niger and CNPCI, as described in the Legal Proceedings and Outlook sections of this Management Discussion and Analysis.

Operational and Financial Results

Capital Assets

In 2003, the Company recorded a write down of capital assets of \$2,030,586 (nil in 2002) (see Notes 2 and 4 of the Consolidated Financial Statements). TG World's Permit for the Tenere Block arguably became subject to termination on the basis of what was, in our view, a wrongful September 30, 2003 decree issued by Niger - and

the acreage arguably became subject to award to CNPCI. TG World is actively pursuing a satisfactory resolution of these actions, but has no guarantee of success. The Company is therefore writing this asset down to \$nil.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities increased from \$50,926 in 2002 to \$216,087 in 2003. The increase was primarily due to legal expenses related to TG World's dispute with Niger and with CNPC and its affiliates.

Convertible Debentures

During 2003, the Company issued \$1,000,000 of convertible debentures (none in 2002) (see Note 6 (d) of the Consolidated Financial Statements). The debentures were recorded in debt and equity using their relative fair values. An option-pricing model was used to determine the fair value of the equity component of the debentures. Discounted cash flows were used to fair value the debt component. Of total consideration of \$1,000,000, \$801,410 was recorded as debt with the remaining \$198,590 booked as capital. Over the term of the debentures, an amount equal to the equity component will be added to the debt component as a charge to earnings each period.

As of December 31, 2003, the convertible debentures on the Company's balance equaled \$890,028. This value is attributable to the convertible debentures' discounted cash flow value of \$801,410 as at the date of issuance plus accrued interest of \$34,584 and the amortization of the debentures' discount of \$54,118.

Revenues

Revenue for the year ended December 31, 2003 was \$193 consisting of a minor amount of interest income. This compares to the revenue for the year ended December 31, 2002 of \$36,005, which consisted of petroleum revenue of \$33,161, interest income of \$13,802 and royalty expenses of \$10,958. No petroleum revenues were recorded in 2003 due to the disposition of the Company's only producing assets at Weyburn, Saskatchewan in August 2002.

Expenses

General and administrative expenses in 2003 and 2002 were \$1,036,221 and \$447,717 respectively. Prior to 2003, costs directly incurred to develop the Tenere Block were capitalized as deferred costs rather than expensed as general and administrative expenses (see Note 4 of the Consolidated Financial Statements). In 2003, third party costs (\$592,728) and other expenses not directly related to the Tenere Block (\$427,824) are both included in the general and administrative expenses.

Amortization of convertible debentures discount was \$54,118 in 2003 and nil in 2002. Accrued interest expense related to the debentures was \$34,584 in 2003 and

nil in 2002. The 2002 year amounts were nil due to there being no convertible debentures outstanding in 2002.

The Company recorded nil gains from capital asset sales in 2003. This compares to a \$38,169 capital asset gain on the disposition of the Company's Weyburn properties in 2002.

The Company recorded nil petroleum operating expenses and nil site restoration expenses in 2003. In 2002, from discontinued operations at Weyburn, Saskatchewan, the Company recorded petroleum operating expenses of \$16,086, and site restoration provisions of \$3,400.

Stock based compensation expenses for 2003 and 2002 were \$15,728 and \$19,658, respectively. (See Note 6(e) of the Consolidated Financial Statements).

Net Loss and Year End Deficit

The net loss for 2003 and 2002 was \$3,157,821 and \$395,762, respectively. The increase in net loss in 2003 is primarily due to the capital asset write down of \$2,030,586. Other factors are there being no petroleum revenue, the amortization of the debenture discount and the accrued interest expense of the debentures.

The end of year deficit for 2003 and 2002 was \$3,737,721 and \$580,093, respectively. The 2003 year end deficit is a result of the year end loss of \$3,157,825 being added to the beginning of the year deficit of \$580,093.

On a basic and diluted basis, the net loss per share was \$0.16 and \$0.02 in 2003 and 2002, respectively.

Related Party Transactions

Related party transactions were undertaken with respect to management services in the amount of \$117,787 and \$139,756 in 2003 and 2002 respectively, secretarial and administrative services in the amount of \$34,845 and \$39,600 in 2003 and 2002 respectively and rent in the amount of \$32,121 and \$23,592 respectively. All such expenditures were reviewed for appropriateness and approved by management of TG World (see note 5 to the Consolidated Financial Statements)

Material Contracts and Commitments

The Company's only asset is TG World. TG World's only asset is the Establishment Agreement (see note 9 to the Consolidated Financial Statements) with Niger relating to the Tenere Block. TG World's principal business initiative in recent years has been devoted to preliminary exploration programs and seeking potential partners to participate in a farm-out agreement. Pending resolution of the outstanding legal issues on the Tenere Block, it is not possible to estimate future capital expenditures (see Legal Proceedings). The current exploration period would normally have expired in April 2004, but the Establishment Agreement provides that its term will be

extended for the duration of any ICSID proceedings, and on that basis our position is that the Establishment Agreement has not expired (see Legal Proceedings).

Liquidity and Capital Resources

The Company completed two private placements during 2003. The first private placement closed in two tranches raising a cumulative of \$400,000. The first tranche closed on March 31, 2003 and the second tranche closed on June 20, 2003. The financing involved the issuance of Units consisting of a \$10,000 unsecured convertible debenture bearing interest at the greater of Royal Bank of Canada prime rate plus 4% per annum or 12% per annum and 83,333 common share purchase warrants. Each two warrants entitles the warrant holder to purchase one common share at an exercise price of \$0.12 per share for a period of two years from the anniversary of the closing date. The term to maturity of the convertible debenture is the earlier of the two year anniversary from the closing date or conversion by the holder or redemption by the Company. The Company may call the debenture for redemption, upon giving the holder 15 days notice, when the weighted average trading price of the common shares of the Company for any 22 consecutive business days equals or exceeds \$0.37. The debenture holder is entitled to convert all or part of the debenture (principal only) into common shares of the Company at any time up to two years from the anniversary of the closing date at no additional cost to the holder. The conversion rate for either redemption by the Company or retraction by the holder is 83,333 common shares for each \$10,000 investment amount.

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The funds raised through the aforementioned private placements will be expended for working capital purposes and to resolve the issues noted below under Legal Proceedings. Further financings will be necessary if the legal dispute is not resolved by mid 2004 or if extensive legal proceedings are undertaken.

As at December 31, 2003 the Company had \$248,384 in cash and a working capital surplus of \$31,851.

Legal Proceedings

Through reports in the Niger media, TG World became aware in early October 2003 that Niger was seeking to terminate TG World's Permit for the Tenere Block, even though TG World was current with respect to its work commitments and fees and TG World had at least until April 2004 (arguably until July 28, 2004) to complete the required seismic program.

The Company issued a press release on November 13, 2003 stating that on November 7, 2003, after unsuccessful good faith attempts by TG World to negotiate a resolution of its disputes with the Government of Niger relating to its Tenere Block, TG World had filed to commence conciliation proceedings with the World Bank Group's International Centre for the Settlement of Investment Disputes ("ICSID").

Under the Establishment Agreement, TG World and Niger must submit all disputes in relation thereto to the exclusive jurisdiction of ICSID for resolution by ICSID conciliation proceedings and, if those are unsuccessful, by ICSID arbitration proceedings. Niger is party to the ICSID Treaty, originally created for the purpose of providing foreign investment security for international financial institutions such as the World Bank. ICSID is a set of conciliation/arbitration rules, as well as an arbitral award enforcement treaty, combined into one. TG World decided to file with ICSID after press reports in Niger indicated that Niger had issued a decree approving an Establishment Agreement for the Tenere Block with CNPCI. The filing has been registered by ICSID, and the selection of ICSID Conciliators is underway. It is TG World's opinion that Niger has no right to terminate, or threaten to terminate, TG World's Permit, or TG World's Establishment Agreement, prior to the end of TG World's exploration period in April 2004 (arguably July 2004), or to sign an Establishment Agreement with another party for the Tenere Block. Under TG World's Establishment Agreement, once ICSID proceedings are registered, the term of that contract is extended for the duration of the ICSID proceedings, and it is our view that no termination of TG World's Establishment Agreement may be effected by Niger prior to the conclusion of the ICSID proceedings – essentially “freezing” the Tenere Block, subject to the ultimate result of the ICSID proceedings. Moreover, it is our view that ICSID has the sole jurisdiction to determine whether or not the September 30, 2003 decree seeking to terminate TG World's Permit is effective, and if effective whether it was wrongful and should be repealed. Niger did not, prior to the ICSID proceedings or at any other time, issue any decree designed to terminate TG World's Establishment Agreement. Moreover, in our view Niger has never attempted to implement the very specific termination procedures described TG World's Establishment Agreement, including the giving of a 90 day notice period after the occurrence of any alleged breach, during which (in our view) TG World would have the right either to “cure” any such breach or, alternatively, if TG World did not agree that any such alleged breach occurred, initiate ICSID proceedings which would have exclusive jurisdiction of the dispute. In any event, as result of Niger's actions in regard to signing an Establishment Agreement with CNPCI for Tenere, such ICSID proceedings have been initiated.

TG World had also entered into a confidentiality / non-competition agreement (“CA”) with an affiliate of CNPC in respect of the Tenere Block on November 1, 2001, in the

context of potential farmout discussions with that affiliate. The CA expired on November 1, 2003 – only six days prior to Niger's announcement that it had issued a decree approving an Establishment Agreement with CNPCI for the Tenere Block. During the term of the CA, TG World personnel thoroughly reviewed with CNPC staff TG World's extensive technical and economic data, developed over many years at considerable expense to TG World, on its Tenere Permit. This review involved transmitting to CNPC substantial portions of TG World's confidential data pertaining to the Tenere Permit and discussing this data extensively in good faith with CNPC staff. On October 17, 2003 TG World sent a fax to a CNPC affiliate advising that TG World had been informed that an international oil company had made proposals to Niger regarding TG World's Tenere Block – reminding such CNPC affiliate of its confidentiality and non-competition obligations to TG World – and demanding compliance. According to the press reports in Niger on Friday, November 7, 2003 it was reported that: "In reaction to the efforts to promote the petroleum potential of our country, CNPC International Ltd. approached the Ministry of Mines and Energy and expressed its interest in the Tenere and Bilma Permits." On November 9, 2003 TG World sent another fax to a CNPC affiliate warning that TG World would take legal action if any attempt was made to obtain an interest in the Tenere Block. In a subsequent press release on Tuesday, November 11, 2003, reporting on a signing ceremony which took place on Monday, November 10th, the Minister of Mines and Energy is reported to have said that the new agreement with CNPCI "required long negotiations" which "thanks to the goodwill of both sides" resulted in a "consensus agreement". In TG World's view, these negotiations between CNPC affiliates and Niger clearly occurred after a thorough review by CNPC of TG World's confidential data and well before the term of the CA had expired – a clear violation of the confidentiality and non-competition provisions of the CA.

In addition to filing the ICSID proceedings against Niger, TG World has commenced legal action against CNPCI in Niger for tortious interference with a contractual relationship – in addition to an injunction against CNPCI performing operations on the Tenere Block. Additionally, TG World has commenced a separate United Nations Commission on International Trade Law ("UNCITRAL") arbitration against the applicable CNPC affiliate for breach of the confidentiality and the non-competition agreements contained in the CA.

Outlook

TG World will vigorously fight any illegal termination by Niger of TG World's Permit and/or Establishment Agreement, any illegal Establishment Agreement with CNPCI, and any breach of TG World's CA agreement by the applicable CNPC affiliate. Although TG World is confident that the law supports its position, the outcome of TG World's claims against Niger and the CNPC affiliates cannot be predicted. In the event that TG World is unsuccessful in either preventing/reversing any termination by Niger, or receiving compensatory damages pursuant to the legal actions, neither TG World, nor the Company, will not have any material assets.

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The audited consolidated financial statements and all information contained in this annual report are the responsibility of management and the audited consolidated financial statements are approved by the Board of Directors of the Corporation. The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and, where appropriate, reflect management's best estimates and judgments based on currently available information. The Corporation has established an accounting and reporting system supported by internal controls designed to safeguard assets from loss or unauthorized use and ensure the accuracy of the financial records. The financial information presented throughout this annual report is consistent with the financial statements. KPMG LLP, an independent firm of chartered accountants, has been appointed by the shareholders as external auditors of the Corporation. The Auditor's report to the shareholders, which describes the scope of their examination and expresses their opinion, is presented in the Auditor's Report.

The Board of Directors, constituted of five members, four of whom are unrelated and independent of management, meets at least four times a year with management, and the external auditors to oversee the discharge of the responsibilities of the respective parties. The Board of Directors reviews the independence of the external auditors, pre-approves audit and permitted non-audit services and reviews the consolidated financial statements and other financial disclosure documents.



Clifford M. James
President and Chief Executive Officer



Edward (Ted) W. Best
Chairman of the Board

Calgary, Canada
May 5, 2004

Consolidated Financial Statements of

TG WORLD ENERGY CORP.

Years ended December 31, 2003 and 2002

AUDITORS' REPORT

To the Shareholders of TG World Energy Corp.

We have audited the consolidated balance sheets of TG World Energy Corp. as at December 31, 2003 and 2002 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada

May 5, 2004

TG WORLD ENERGY CORP.

Consolidated Balance Sheets

December 31, 2003 and 2002

	2003	2002
Assets		
Current assets:		
Cash	\$ 248,384	\$ 102,651
Accounts receivable	12,844	10,070
	261,228	112,721
Capital assets (note 4)	—	2,032,898
	<u>\$ 261,228</u>	<u>\$ 2,145,619</u>
Liabilities, Share Capital and Deficit		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 216,087	\$ 50,926
Due to related parties (note 5)	13,290	9,560
	229,377	60,486
Convertible debentures (note 6(d))	890,028	—
Share capital and deficit:		
Share capital (note 6)	2,645,568	2,645,568
Contributed surplus (note 6(e))	35,386	19,658
Convertible debentures (note 6(d))	198,590	—
Deficit	(3,737,721)	(580,093)
	(858,177)	2,085,133
Future operations (note 2)		
Commitments (note 9)		
	<u>\$ 261,228</u>	<u>\$ 2,145,619</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Edward W. Best, Chairman and Director



Clifford M. James, President, CEO and Director

TG WORLD ENERGY CORP.

Consolidated Statements of Loss and Deficit

Years ended December 31, 2003 and 2002

	2003	2002
Revenues:		
Petroleum	\$ -	\$ 33,161
Royalties	-	(10,958)
Interest	193	13,802
	193	36,005
Expenses:		
General and administrative	1,036,221	447,717
Amortization of debenture discount (note 6(d))	54,118	-
Interest	34,584	-
Gain on sale of capital assets (note 4)	-	(38,169)
Petroleum operating expense	-	16,086
Site restoration provision	-	3,400
Depreciation	2,312	2,733
Write down of capital assets	2,030,586	-
	3,157,821	431,767
Net loss for the year	3,157,628	395,762
Deficit, beginning of year	580,093	184,331
Deficit, end of year	\$ 3,737,721	\$ 580,093
Net loss per share (basic and diluted - note 7)	\$ (0.16)	\$ (0.02)

See accompanying notes to consolidated financial statements.

TG WORLD ENERGY CORP.

Consolidated Statements of Cash Flows

Years ended December 31, 2003 and 2002

	2003	2002
Cash provided by (used in):		
Operating:		
Net loss for the year	\$(3,157,628)	\$ (395,762)
Add items not involving cash:		
Depreciation and site restoration	2,312	6,133
Write down of capital assets	2,030,586	—
Stock-based compensation (note 6(e))	15,728	19,658
Amortization of debenture discount (note 6(d))	54,118	—
Gain on sale of capital assets (note 4)	—	(38,169)
	(1,054,884)	(408,140)
Changes in non-cash working capital	162,387	60,309
	(892,497)	(347,831)
Financing:		
Due to related parties	3,730	57,043
Loan to related party	—	146,234
Convertible debentures (note 6(d))	1,000,000	—
Debenture interest accrued	34,500	—
	1,038,230	203,277
Investing:		
Capital assets, net	—	(427,583)
Proceeds on sale of capital assets	—	15,824
	—	(411,759)
Increase (decrease) in cash	145,733	(556,313)
Cash, beginning of year	102,651	658,964
Cash, end of year	\$ 248,384	\$ 102,651

See accompanying notes to consolidated financial statements.

TG WORLD ENERGY CORP.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

1. Basis of presentation:

TG World Energy Corp. (the "Company", formerly TG World Energy Inc.) is engaged in the business of international petroleum exploration and development with a major focus on Niger, through its subsidiary, TG World Petroleum Limited ("TG World").

2. Future operations:

TG World's assets primarily consist of interests in certain oil and gas properties located in eastern Niger, all of which are in the exploration stage and in legal dispute. To date, the only sources of funds to TG World have been the Company's shareholders and convertible debenture holders. The Company will require the continuing support of its shareholders and additional sources of funds in order to permit TG World to continue its activities. In addition, the Company has utilized the majority of its cash resources subsequent to year-end in an attempt to permit TG World to resolve the dispute described below.

The value of TG World's concession in Niger will depend on a satisfactory resolution to the dispute with the Niger government and other interested parties. Legal actions have been initiated but there is no assurance that these actions will be successful. Conciliation proceedings with Niger have been registered with the World Bank Group's International Centre for the Settlement of Investment Disputes ("ICSID"). Prior to conciliation proceedings and legal actions being taken, efforts are continuing to secure a settlement with Niger and other interested parties. Due to uncertainty associated with the ultimate recoverability of TG World's capital assets, Management of the Company has provided for the "write-down" of the full amount of TG World's interest in the Niger property, notwithstanding TG World's continued effort to secure a favorable settlement of the dispute.

These financial statements have been prepared on a basis, which assumes that the carrying value of the assets will be realized and the liabilities will be settled in the normal course of business. These financial statements do not include the adjustments to the amount and classification of assets and liabilities that would be necessary if the Company was not able to continue its present business plan.

3. Significant accounting policies:

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. In prior years, the most significant estimates made by management related to amounts recorded for the depletion and depreciation of capital assets and the provision for future site restoration costs. With the sale of the Company's Weyburn Saskatchewan oil properties to a third party effective June 1, 2002 (note 4), the obligation for future site restoration passed to the purchaser of this asset and the Company currently has no revenue producing assets.

3. Significant accounting policies (continued):

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary company, TG World Petroleum Limited.

(a) Petroleum and natural gas properties:

(i) Capitalized costs:

The Company followed the full cost method of accounting for petroleum and natural gas properties whereby all costs of exploring for and developing petroleum and natural gas properties and related reserves were capitalized. Such costs include land acquisition costs, geological and geophysical expenses and costs of drilling and completion of both productive and non-productive wells. Proceeds from the disposition of properties are normally deducted from the capitalized costs without recognition of gain or loss, unless the disposal would alter the rate of depletion and depreciation by more than 20 percent, in which case a gain or loss on disposal is recorded. The Company currently has no petroleum and natural gas producing properties. All the capitalized costs, with the exception of minor amounts for office furniture and equipment, were incurred on the Niger project.

(ii) Depletion:

Depletion of the Company's interest in petroleum and natural gas properties was computed by the unit-of-production method based on estimates of proven recoverable reserves. Petroleum and natural gas reserves and production were converted into equivalent units based upon relative energy content. .

(iii) Ceiling test:

The Company applies a ceiling test to ensure that the net costs capitalized to petroleum and natural gas properties do not exceed the estimated future net revenues from the production of its proven reserves, plus the cost of undeveloped lands, less impairment. Future net revenues are calculated at year end prices and include an allowance for estimated future general and administrative expenses, interest expense, income taxes, capital expenditures and future site restoration costs. Any costs carried on the balance sheet in excess of the ceiling test limit are charged to earnings.

(b) Other assets:

Other assets consist of computer and office equipment and are depreciated on a 30% declining balance basis.

(c) Future site restoration:

Estimated future site restoration costs were provided for using the unit-of-production method based upon the estimate of proven reserves. Costs were estimated by the Company based upon current regulations, costs, technology and industry standards. Removal and site restoration expenditures were charged to the accumulated provision as incurred.

3. Significant accounting policies (continued):

(d) Income taxes:

The Company uses the liability method of accounting for income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

(e) Foreign currency translation:

Monetary items denominated in a foreign currency are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in earnings.

(f) Per share amounts:

Net loss per common share is computed by dividing net loss for the year by the weighted average number of common shares outstanding for the year. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments.

(g) Stock-based compensation:

No compensation expense is recorded on the grant of employee and director stock options. Consideration received on the exercise of such options is recorded as share capital. For stock based compensation to non-employees, the Company calculated the fair value using an option pricing model and charged the value to operations over the vesting period of the options. During year ended December 31, 2003, the Company did not grant any options to consultants, employees or directors.

4. Capital assets:

	Balance, December 31, 2002	Expenditures during the year	Depreciation	Balance, December 31, 2003
Deferred costs, Tenere, Niger	\$ 2,027,626	\$ —	\$ —	\$ 2,027,626
Computer and office equipment	5,272	—	(2,312)	2,960
	2,032,898	—	(2,312)	2,030,586
Write down of capital assets	—	—	—	(2,030,586)
	\$ 2,032,898	\$ —	\$ (2,312)	\$ —

	Balance, December 31, 2001	Expenditures during the year	Depreciation	Balance, December 31, 2002
Deferred costs, Tenere, Niger	\$ 1,599,095	\$ 428,531	\$ —	\$ 2,027,626
Computer and office equipment	8,953	(948)	(2,733)	5,272
	\$ 1,608,048	\$ 427,583	\$ (2,733)	\$ 2,032,898

Costs capitalized to the Tenere, Niger project, prior to the write down of capital assets, are as follows:

	2003	2002
Lease acquisition	\$ 107,032	\$ 107,032
Fees and other holding costs	1,446,350	1,446,350
Work programs	836,744	836,744
Recoveries	(362,500)	(362,500)
	\$ 2,027,626	\$ 2,027,626

As at December 31, 2003, capital assets were written down to \$nil as a result of the dispute described in note 2. Management of TG World continues to negotiate a favorable settlement, but there is no assurance that such a settlement will be concluded.

Effective August 29, 2002, the Company sold its only revenue producing assets. The terms of the sale included the purchaser receiving the results of operations from these properties from June 1, 2002 onward. The obligation for future site restoration passed to the purchaser of these assets.

5. Related party transactions:

The following table sets out the services that were provided by related parties and are recorded at exchange amount:

Service Provided	Charges for services provided	
	2003	2002
Management services provided by Seajay Management Enterprises Ltd.	\$ 117,787	\$ 139,756
Secretarial and administration services provided by Seajay Management Enterprises Ltd.	\$ 34,845	\$ 39,600
Rent charged by TVI Pacific Inc.	\$ 32,121	\$ 23,592

Management services provided by Seajay Management Enterprises Ltd. ("Seajay") were for time devoted to the affairs and business of the Company. Costs for services related to management time incurred on projects are charged to expense as incurred. Charges for secretarial and administration services provided by Seajay to the Company are to recover the cost of these services from the Company. Seajay is a company controlled by an officer and director of the Company. At December 31, 2003, Seajay owned 3,080,745 (15.19%) of the outstanding shares of Company.

Rent paid to TVI Pacific Inc. ("TVI") is for office space occupied by the Company on TVI's premises. TVI is a public company listed on the TSX. An officer and director of the Company, is President, CEO, Chairman and a director of TVI. Rent costs are charged to general and administrative expenses.

As at December 31, 2003 and 2002, due to related parties represents amounts due to Seajay and TVI on account of management and administrative services and office space provided to the Company.

6. Share capital:

(a) Authorized and issued:

The authorized capital of the Company is an unlimited number of common shares.

(b) Common shares issued:

	Number of Shares	Amount
Balance at December 31, 2001, 2002 and 2003	20,275,913	\$ 2,645,568

6. Share capital (continued):

(c) Options:

At December 31, 2003, the Company had the following share options and share purchase warrants outstanding:

	2003		2002	
	Options outstanding	Exercise price	Options outstanding	Exercise price
Outstanding, beginning of year	3,025,000	\$ 0.37	2,830,470	\$ 0.37
Granted	—	—	645,000	0.37
Exercised	—	—	—	—
Cancelled	(375,000)	0.37	(450,470)	0.37
Outstanding, end of year	2,650,000	0.37	3,025,000	0.37
Exercisable, end of year	1,952,361	\$ 0.37	1,146,363	\$ 0.37

Options granted are for a five-year term and vest over a three-year period.

(d) Warrants and debentures:

At December 31, 2003 the Company had the following warrants outstanding:

	Number of Common Shares Reserved	Exercise Price
Expiring March 31, 2005 (1,250,000 warrants exercisable at two warrants per common share)	625,000	\$ 0.12
Expiring June 20, 2005 (2,083,325 warrants exercisable at two warrants per common share)	1,041,662	0.12
Expiring December 17, 2005 (6,000,000 warrants exercisable at one warrant per common share)	6,000,000	0.10
	7,666,662	

On March 31, 2003 and June 20, 2003, the Company issued 15 and 25 units, respectively, each unit comprising one \$10,000 convertible debenture with a term of two years (convertible into 83,333 common shares) and 83,333 share purchase warrants exercisable at two warrants for one common share at \$ 0.12 per share. The warrants expire on the second anniversary of their issue. The debentures bear interest at the greater of bank prime rate plus 4% or 12% per annum. The holder may convert the debenture into 83,333 common shares at any time during the two-year term at no additional cost.

6. Share capital (continued):

(d) Warrants and debentures (continued):

The Company may call the Debenture for redemption, upon giving the Holder 15 days notice, provided the weighted average trading price of the common shares of the Company for any period of 22 consecutive business days equals or exceeds \$0.37 per share. The placement of the debenture was negotiated when the Company's shares traded at \$ 0.12 per share. At the issue date of the debentures, the shares traded at \$0.12 per share.

On December 11, 2003, the Company issued 60 units, each unit comprising one \$10,000 convertible debenture with a term of two years from September 30, 2003 (convertible into 200,000 common shares) and 100,000 share purchase warrants exercisable at one warrant for one common share at \$ 0.10 per share. The debentures bear interest at the greater bank prime rate plus 4% or 12% per annum. The placement of the debenture was negotiated when the Company's shares traded at \$0.05 per share. At the issue date of the debentures, the shares traded at \$0.065 per share.

The debentures were recorded in debt and equity using their relative fair values. An option-pricing model was used to determine the fair value of the equity component of the debentures. Discounted cash flows were used to fair value the debt component. Of total consideration of \$1,000,000 received during the year ended December 31, 2003, \$801,410 was recorded as debt with the remaining \$198,590 recorded to capital. Over the term of the debentures, an amount equal to the equity component will be added to the debt component as a charge to earnings each period.

The proceeds received from these Private Placements were used as a source of working capital to the Company.

(e) Stock-based compensation:

Adoption of the fair value method of accounting for stock-based compensation for options granted to directors, officers, and employees for the years ended December 31, 2003 and 2002 would result in the Company's net loss and loss per share being adjusted to the amounts indicated below:

	2003	2002
Net loss:		
As reported	\$ 3,157,628	\$ 395,762
Pro forma	3,166,616	399,677
Loss per share, basic and diluted:		
As reported	\$ (0.16)	\$ (0.02)
Pro forma	(0.16)	(0.02)

6. Share capital (continued):

(e) Stock-based compensation (continued):

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with assumptions for grants as follows, risk free interest rate of 3.0%, expected life of 5 years, and expected volatility of 200%.

During the year ended December 31, 2003, the Company recorded compensation expense of \$15,728 (2002 - \$19,658) for stock options granted to non-employees. The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the assumptions noted above.

7. Per share amounts:

The basic weighted average number of common shares outstanding during the year ended December 31, 2003 was 20,275,913 (2002 - 20,275,913). As all options were out of the money at year-end, no addition is made to the basic weighted average number of shares when calculating diluted weighted average number of shares.

8. Income taxes:

The provision for income taxes differs from that which would be expected by applying the combined corporate statutory rates as follows:

	2003	2002
Income tax rate	40.62%	42.1%
Net loss for the year	\$ 3,157,628	\$ 395,762
Expected recovery	\$ 1,282,628	\$ 166,616
Non-employee option expense	6,389	8,276
Amortization of debenture discount	(21,982)	—
Valuation allowance	(1,267,035)	(174,892)
	\$ —	\$ —

Substantially all of the Company's future income tax asset relates to capital assets, all of which is provided for with a valuation allowance.

The Company has non-capital losses, for Canadian tax purposes, available for income tax purposes of approximately \$5.6 million as at December 31, 2003, which may be applied to reduce taxable income in future taxation years, the benefit of which has not been recorded to these financial statements. These losses expire from 2004 to 2010.

9. Commitments:

The predecessors of TG World entered into an Establishment Agreement (the "Agreement") with the Republic of Niger in April 1997, whereby it gained exclusive rights for oil and gas exploration (ten years) and production (15 years - renewable once) over 70,000 square kilometers (approximately 17.2 million acres), subject to staged relinquishment. In 2001, a relinquishment of 50% of the acreage to Niger was made in accordance with the terms of the Agreement. A further 50% relinquishment of the remaining 8.6 million acres was to be made in April 2004 at the beginning of the third exploration period although that obligation has been, in our view, postponed pending the conclusion of ICSID proceedings. The Agreement calls for the following work program (the timing of which, in our view, shall be extended as per the Agreement and as per any additional extension a future ICSID arbitral tribunal may award):

	Estimated Cost
First exploration period – completed	
Second exploration period - 3 years ending April 2004: 1,500 kilometres of seismic	\$ 14,100,000
Third exploration period - 3 years ending April 2007: Drill 2 exploratory wells	20,800,000
	\$ 34,900,000

The minimum expenditure in any period is that required to complete the work commitment. In management's view, TG World will have the right to make a decision upon the conclusion of the ICSID proceedings as to whether it wishes to proceed to the third exploration period. There is no requirement and no commitment to proceed to the third period, but there is a commitment to complete the seismic associated with the second exploration period. TG World has completed the requirements of the first exploration period. The amounts shown as expenditures in the remaining periods of \$34.9 million represent TG World's current estimate of the costs required to complete the programs associated with both the second and third exploration periods. Actual expenditures may be substantially different.

The project is subject to the right of Niger to a 10% participation interest, and to a 12.5% royalty on liquids and a 5% royalty on gas. The applicable income tax rate in Niger is 45%. In addition, there are annual charges of approximately \$150,000 to maintain the property in good standing.

TG World is in a dispute with Niger and other interested parties with respect to this property, reference is made to note 2.

10. Financial assets and liabilities:

(a) Fair values:

The fair values of cash, accounts receivable and liabilities approximate their carrying values.

(b) Exchange rate risks:

TG World is exposed to exchange rate fluctuations in relation to amounts due to the government of Niger for annual fees and for services it must purchase in foreign currencies. Management believes this exposure is not material to its overall operations.

BOARD OF DIRECTORS

Edward (Ted) W. Best ^{1,2}

Corporate Director: Prior to 1985 President, Oil and Gas Division and Director of BP Canada Inc. Mr. Best has a BSc. and PhD. in geology and over 50 years experience in the oil and gas business.

A. Lloyd Flood^{1,2}

Corporate Director: Mr. Flood has held senior positions with Bow Valley Energy Ltd. Mr. Flood is also the President of Flood Energy Systems Inc. (a private consulting corporation) since 1985. He holds a BSc. in geological engineering and has over 50 years experience in the oil and gas industry, much of it international.

Clifford M. James

Director, President and Chief Executive Officer of TG World Energy Corp., Director of TG World Petroleum Limited, and Director, President and Chief Executive Officer of TVI Pacific Inc. (a mineral exploration company) as well as a director of several other companies: Mr. James holds a BSc. and MSc. in geology and has over 30 years experience in the oil and gas and mining industries, much of it in international

Wilfrid A. Loucks

Corporate Director: Prior to 1994 Mr. Loucks was an independent businessman and prior to 1988 Vice President of Norcen Energy Resources Ltd. He holds a BSc. in geological engineering and has over 50 years experience in the oil and gas and mining industries, much of it in the international area.

Wayne G. Thomson^{1,2}

Corporate Director: Mr. Thomson is a Director and Consultant for CDK Services, a TSX Venture listed oil and gas service company. He was President of Airborne Pollution Control from 2001 to 2003, President of Hadrian Energy Corp. from 1999 to 2001, President of Gardiner Oil and Gas Limited, a public company listed on the Toronto Stock Exchange, in 1995 and 1996. Prior to these appointments Mr. Thomson spent three years as President of Petrocorp Exploration, the New Zealand oil and gas division of Fletcher Challenge and he spent six years at Alberta Energy Company, the last three years as Vice-President of Production. He holds a BSc. in engineering.

¹ Member of the Audit Committee

² Member of the Human Resources Committee

GENERAL INFORMATION

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Officers:

Chairman: Edward (Ted) W. Best
President and CEO: Clifford M. James

Board of Directors:

Edward (Ted) W. Best
Lloyd Flood
Clifford M. James
Wilfrid A. Loucks
Wayne G. Thomson

TSX Venture Exchange: Symbol TGE

Auditors: KPMG LLP; Calgary, Alberta

Legal Counsel: Bennett Jones LLP; Calgary, Alberta

Banker: HSBC Bank Canada: Calgary, Alberta

Transfer Agent: Computershare Trust Company of Canada: Calgary, Alberta